



**Michael C. Schlachter, CFA**  
**Managing Director & Principal**

May 26, 2011

Dr. George Diehr  
Chair, Investment Committee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: Revision of Policy for Liquidity Program

Dear Dr. Diehr:

You requested Wilshire's opinion with respect to the proposed revisions to the investment policy for the liquidity program.

### **Recommendation**

**Wilshire recommends that the Policy Subcommittee adopt the revised policies for the liquidity program as presented.**

### **Background**

The policy change presented by Staff sets allowable ranges for the liquidity program for bonds with more than 10 years until maturity. The inclusion of this part of the policy in prior versions was an oversight by Staff.

We see no reason why longer duration treasury bonds should be measurably less liquid than shorter duration bonds, especially if Staff limits their purchases to "on-the-run" securities, and we do not believe that this change will impact the ability of this portfolio to provide liquidity as needed.

Obviously, longer duration bonds do have greater investment risks than shorter bonds (their prices react more to changes in interest rates than do the prices of shorter bonds) but we are comfortable that Staff understands this risk and will structure the portfolio accordingly.

Please let us know if you have any questions or comments.

Best regards,

A handwritten signature in black ink, appearing to read 'Michael Schlachter'.